

Spring 2010
NBA 5950, CRP 6102, Credit: 3 (not open for audit)
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Economics of Financial Crises

Thurs 13.25-16.10; Room: Sage B10

Office Hour: Tue: 14.00 – 17.00, and by appointment

Office: 213 West Sibley Hall (255-4271)

Purpose of the Course

More globalized world implies more unstable and volatile financial sector. As a result, the probability of a financial crisis gets higher. Business sector's behavior can play an important role in affecting crisis, and they can also determine the speed and characteristics of the recovery. On the other hand, crisis can have important repercussions on the business sector. Episodes of financial crisis have occurred in all countries, developing and developed alike, the latest one of which (the 2008 global financial crisis, or GFC) originates in the United States. Understanding the causes, nature, and consequences of these crises is of interest to analysts, business community, public and private sector. The main purpose of this course is to help students to acquire such understanding, and familiarize them with relevant tools for analyzing crisis phenomena. While crisis is often multidimensional, the course focuses on the economic aspects of it.

Requirements

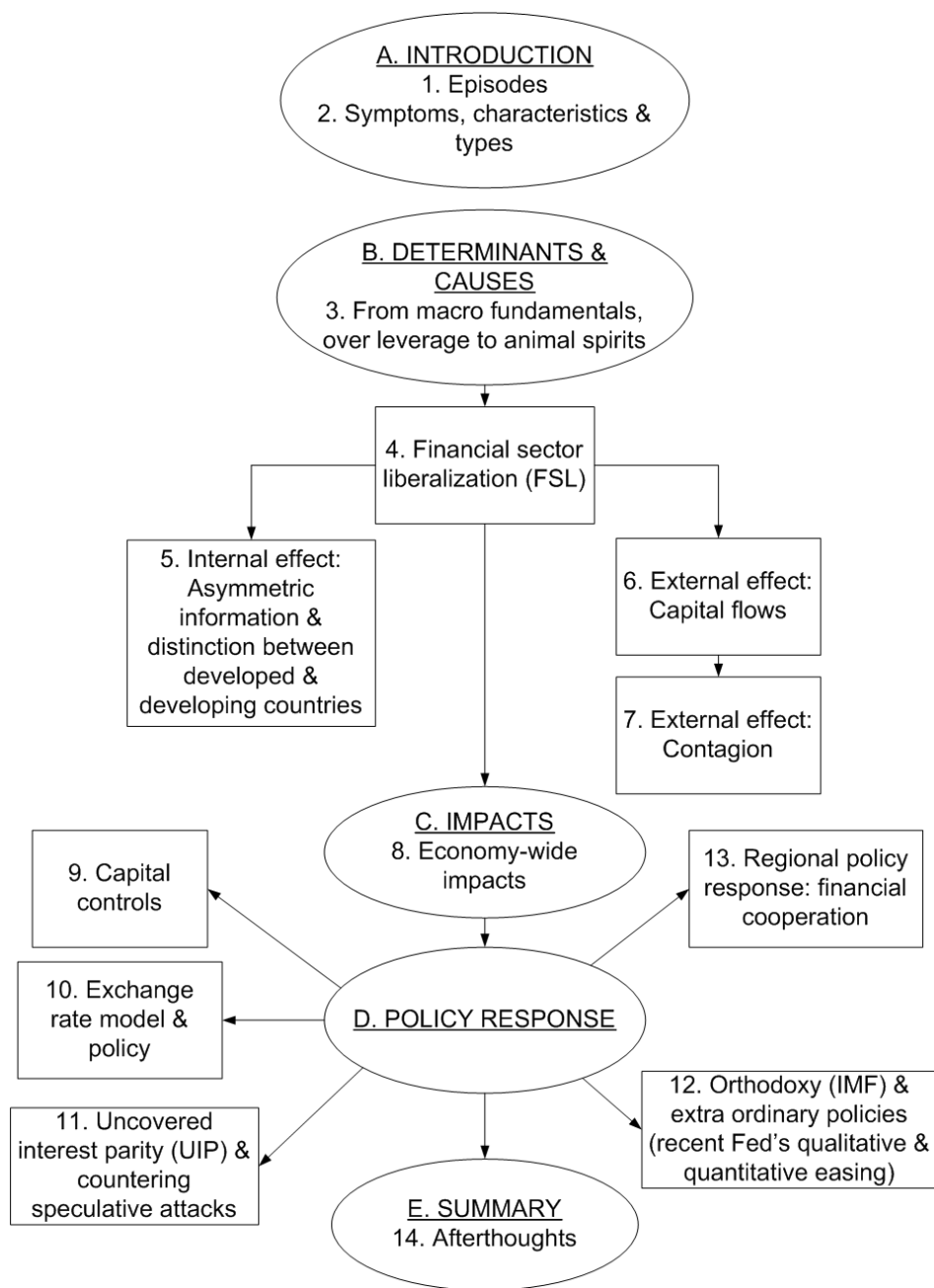
Having some background in macro, micro and financial economics is useful. Prior knowledge of some basic quantitative models is also helpful, albeit not strictly required. The use of laptop computer during the class meeting is not allowed.

Evaluation

Evaluation will be based on three components: (1) class participation & discussions: 10%; (2) homework assignments: 40%; and (3) final exam/project (take home): 50%.

Contents, Schedule and Reading Materials

Three broad subjects to be covered are: (a) Nature; (b) Consequences; and (c) Policy response to financial crisis, and they are classified into five (5) class subjects: A. Introduction; B. Determinants & Causes; C. Impacts; D. Policy Response; and E. Summary, as shown in the following flowchart; note that the numbers reflect the week of class meeting (e.g., 1 denotes week 1; and 14 denotes week 14, etc):



The following are week-by-week topics to discuss. The listed reading materials are not exhaustive; they are shown primarily for those seeking for clarifications or further explanations on the respective subject(s).

A. INTRODUCTION

Week 1:

- Episodes of financial crises
- High frequency of crisis in 1990s
- Subprime and global financial crisis (GFC) 2008-9

Reading Materials

1. Pastor, Manuel (1989), *Capital Flight and the Latin American Debt Crisis*, Economic Policy Institute, Washington DC.
2. Eichengreen, Barry (2000). *The EMS Crisis in Retrospect*, NBER Working Paper No 8035, December, (<http://www.nber.org/papers/w8035>).
3. Drazen, Allan (1999), *Political Contagion in Currency Crises*, NBER Working Paper Series No 7211, Cambridge, MA (<http://www.nber.org/papers/w7211>) or <http://www.tau.ac.il/~drazen/ciewp39.pdf>
4. Sachs, Jeffrey (2000), *Brazil Fever: First, Do No Harm*, background paper for NBER meeting, Currency Crisis, Session on Brazil, April 15, (<http://www.nber.org/~confer/2000/brazil00/sachs.pdf>)
5. Stiglitz, Joseph (1999). "Must Financial Crises be this Frequent," Policy Options, July-August
6. Azis, Iwan J (1999), *Do We Know The Real Causes of the Asian Crisis?* in Barry Herman (ed), Global Financial Turmoil and Reform, United Nations University Press.
7. OECD Policy Brief (2002). "Economic survey of Turkey, 2002" OECD Observer, Organisation for Economic Co-operation and Development, Paris, October (<http://www.oecd.org/dataoecd/52/1/2763824.pdf>)
8. Mario I. Blejer, Alejandro Henke, and Eduardo Levy-Yeyati (2002) *The Argentine Crisis: Issues for Discussion*. Unpublished manuscript (<http://www.nber.org/~confer/2002/argentina02/blejer.pdf>)
9. Adams. W., Liran Einav, Jonathan Levin (2007). "Liquidity Constraints and Imperfect Information in Subprime Lending," NBER Working Paper No. 13067, Cambridge, MA
10. Dood, Randall (2007). *Subprime: Tentacles of a Crisis*, in Finance and Development, December, Vol 44, No 4; (<http://www.imf.org/external/pubs/ft/fandd/2007/12/dodd.htm>)
11. Azis, Iwan J (2008). "From Subprime Crisis to a Possible Recession," Current Topics in Management, Vol 13, July.

Week 2:

- Symptoms of financial crises: surge of capital inflows, bubble economy, credit boom, over leverage, widening current account deficit, overvalued currency.
- Characteristics: rising interest rates; widening spread; falling foreign reserves; capital outflows, deteriorating balance sheet; sharp fall in output and the stock market,
- Types of crises: current account, capital account, balance sheet, bank-run, contagion and irrational speculation

Reading Materials

1. Bordo, Michael D (2006). *Sudden Stops, Financial Crises and Original Sin in Emerging Countries: Déjà vu?*, NBER Working Paper No 12393, July; (<http://www.nber.org/papers/w12393>)

2. Feldstein, Martin (1999), *Self-Protection for Emerging Market Economies*, NBER Working Paper Series, No 6907, January. (<http://papers.nber.org/papers/W6907>)
3. Yoshitomi, M; Iwan J. Azis; Willem Thorbecke, et.al (2003), *A Post-Crisis Development Paradigm for Asia*, ADB-Institute, Tokyo.
4. Cerra, Valerie Cerra; Sweta Chaman Saxena (2005), “*Growth Dynamics: The Myth of Economic Recovery*,” *IMF Working Paper*, WP/05/147, July (<http://www.imf.org/external/pubs/ft/wp/2005/wp05147.pdf>)
5. Obstfeld, M (1994), *The Logic of Currency Crises*, NBER Working Paper Series, No 4640, Cambridge MA (<http://papers.nber.org/papers/W5789>)
6. Azis, Iwan J (2009). *Crisis, Complexity, and Conflict*, Emerald, UK
7. Akerlof, George and Robert Shiller (2009). *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism*, Princeton University Press

B. DETERMINANTS & CAUSES

Week 3:

- Causes of financial crises or of vulnerability: From macro fundamentals and over-leverage to animal spirits

Reading Materials

1. Azis, Iwan J (1997), *Currency Crisis in Southeast Asia: The Bubble Finally Bursts*, *The Economic Outlook For 1998*, RSQE, University of Michigan
2. Thierry Tresselt and Enrica Detragiache (2008), “*Do Financial Sector Reforms Lead to Financial Development? Evidence from a New Dataset*,” *IMF Working Paper*, No 265, WP/08/265 (<http://www.imf.org/external/pubs/ft/wp/2008/wp08265.pdf>)
3. Sachs, J.D., Tornell, A., Velasco, A. (1996), *Financial Crises in Emerging Markets: The Lessons From 1995*, *Brookings Papers on Economic Activity*, No 1 (www.nber.org/papers/w5576)
4. Azis, Iwan J (2004) “*Financial Sector Liberalization and the Asian Financial Crisis: The IFI Got it Wrong Twice*,” in Lourdes Benaria and Savitri Bisnath (eds). *Global Tensions: Challenges and Opportunities in the World Economy*, Routledge, New York-London.
5. Smaghi, Lorenzo Bini (2008): “*The financial crisis and global imbalances – two sides of the same coin*,” speech at the Asia Europe Economic Forum conference “The Global Financial Crisis: Policy choices in Asia and Europe”, Beijing, 9 December (<http://www.bis.org/review/r081212d.pdf>)
6. Azis, Iwan J (2009). *Crisis, Complexity, and Conflict*, Emerald, UK
7. Shiller, Robert J (2007). “*Understanding Recent Trends in House Prices and Home Ownership*,” Cowles Foundation Discussion Paper, No 1630, September (<http://www.kc.frb.org/publicat/sympos/2007/PDF/2007.09.27.Shiller.pdf>)

Week 4:

- Financial sector liberalization (FSL) and weak banking system: From sequencing of liberalization, excessive leverage, to deregulation

Reading Materials

1. Stiglitz, Joseph E., Bruce C. Greenwald (2003). *Towards a New Paradigm in Monetary Economics*, Cambridge University Press
2. Bekaert, Geert., Campbell R. Harvey, and Christian Lundblad (2001), *Does Financial Liberalization Spur Growth?*, NBER Working Paper, No. 8245, Cambridge, Massachusetts. (<http://www.nber.org/papers/W8245>)
3. Azis, Iwan J (1999), *Exchange Rate, Capital Flows and Reform Sequencing in Indonesia: Policy Trend and CGE Model Application*, in Julio de Brun and Rolf Luders (eds), Macroeconomic Policy and the Exchange Rate, International Center for Economic Growth, San Fransisco, CA
4. Klein M & Olivei, G (1999), *Capital Account Liberalization, Financial Depth, and Economic Growth*, NBER Working paper Series No 7384, Cambridge, MA (<http://papers.nber.org/papers/W7384>)
5. Chang, R & Velasco, A (1998), *Financial Fragility and the Exchange Rate Regime*, NBER Working Paper Series No 6469, Cambridge MA (<http://papers.nber.org/papers/W6469>)
6. Burnside, C., Eichenbaum, M., Rebelo, S (1998), *Prospective Deficits and the Asian Currency Crisis*, NBER Working Paper Series No 6758, Cambridge, MA (<http://papers.nber.org/papers/W6758>)
7. Eichengreen, B, Mussa, M, Dell’Ariccia, G, Detragiache, E, Milesi-Ferretti, G.M, and Tweedie, A (1999), *Liberalizing Capital Movements: Some Analytical Issues*, IMF Economic Issues, No 17 (<http://www.imf.org/external/pubs/ft/issues/issues17/index.htm>)
8. Johnston, R.B (1998), *Sequencing Capital Account Liberalization and Financial Sector Reform*, IMF Paper on Policy Analysis and Assessment, PPAA/98/8 (<http://www.imf.org/external/pubs/ft/ppaa/ppaa9808.pdf>)
9. Johnston, Barry, R., Salim M. Darbar, and Claudia Echeverria (1997). *Sequencing Capital Account Liberalization - Lessons from the Experiences in Chile, Indonesia, Korea, and Thailand*, IMF Working Paper WP/97/157, Washington D.C. (<http://www.imf.org/external/pubs/ft/wp/wp97157.pdf>)
10. Kaminsky, Graciela L. and Carmen M. Reinhart (1999), “*The Twin Crises: The Causes of Banking and Balance of Payments Problems*”, American Economic Review, 89/3, 473-500. (<http://200.32.4.58/~ely/Kaminski-Reinhart.pdf>)
11. Currie, Carolyn (2006). “*A new theory of financial regulation: Predicting, measuring and preventing financial crises*,” The Journal of Socio-Economics 35, p48–71 (<http://www.sciencedirect.com/science/article/B6W5H-4J2M4FX-1/2/37257696379f9e2beb27398419b622de>)
12. Kose, M. Ayhan; Eswar Prasad; Kenneth Rogoff; Shang-Jin Wei (2006). *Financial Globalization: A Reappraisal*, NBER Working Paper, No 12484, August; (<http://www.nber.org/papers/w12484>)

13. Ranciere, Romain; Aaron Tornell; Frank Westermann (2006) “*Decomposing the Effects of Financial Liberalization: Crises Vs. Growth*”, NBER Working Paper, No 12806; (<http://www.nber.org/papers/w12806>)
14. Azis, Iwan J (2009). Crisis, Complexity, and Conflict, Emerald, UK

Week 5:

- Internal effect of FSL: Asymmetric information (adverse selection, moral hazard, and free rider)
- Distinct crises in developed and developing countries

Reading Materials

1. Stiglitz, Joseph and Bruce Greenwald (2004), Towards a New Paradigm in Monetary Economics, Cambridge University Press.
2. Mishkin, Frederic, S (1998), *International Capital Movements, Financial Volatility and Financial Instability*, NBER Working Paper, No. 6390, Cambridge, MA (<http://papers.nber.org/papers/W6390>)

Week 6:

- External effect of FSL: capital inflows and their impacts

Reading Materials

1. Edwards, Sebastian (1998), *Capital Flows Into Latin America: A Stop-Go Story?* NBER Working Paper Series No 6441, Cambridge, MA (<http://papers.nber.org/papers/W6441>)
2. Bekaert, G., Harvey, C.R., Lumsdaine, R.L. (1999), *The Dynamics of Emerging Market Equity Flows*, NBER Working Paper Series No 7219, Cambridge MA (<http://papers.nber.org/papers/W7219>)
3. Lopez-Mejia, A (1999), *Large Capital Flows: A Survey of the Causes, Consequences, and Policy Responses*, IMF Working Paper, WP/99/17 (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=880544)
4. Calvo, Guillermo, A., Leiderman, L., Reinhart, C.M (1992), *Capital Inflows and Real Exchange Rate Appreciation in Latin America: The Role of External Factors*, IMF Working Paper, WP/92/62 (<http://www.imf.org>) or (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=884895)
5. Ito, Takatoshi (1999), *Capital Flows in Asia*, NBER Working Paper Series No 7134, Cambridge, MA (<http://papers.nber.org/papers/W7134>)
6. Wei, Shang Jin., and Yi Wu (2001). *Negative Alchemy: Corruption, Composition of Capital Flows and Currency Crises*, NBER Working Paper No. 8187, March, Cambridge Massachusetts. (<http://www.nber.org/papers/W8187>)
7. IIF (2008). “*Capital Flows to Emerging Market Economies*,” The Institute of International Finance, Inc. publication, October. (<http://www.iif.com/press/press+60.php>)

Week 7:

- External effect of FSL: Contagion

Reading Materials

1. Glick, R & Rose, A.K (1998), *Contagion and Trade: Why Are Currency Crises Regional?* NBER Working Paper Series No 6806, Cambridge MA (<http://papers.nber.org/papers/W6806>)
2. Baig, T & Goldfajn, I (1998), Financial Market Contagion in the Asian Crisis, IMF Working paper, WP/98/155 (<http://www.imf.org/external/pubs/ft/staffp/1999/06-99/pdf/baig.pdf>)
3. Forbes, K & Rigobon, R (1999), No Contagion, Only Interdependence: Measuring Stock Market Co-Movements, NBER Working Paper Series No 7267, Cambridge, MA (<http://papers.nber.org/papers/W7267>)
4. Forbes, K & Rigobon, R (2000), Contagion in Latin America: Definitions, Measurement, and Policy Implication, NBER Working Paper Series No 7885, Cambridge, MA (<http://papers.nber.org/papers/w7885.pdf>)
5. Rigobon, R (2000). Contagion: How to Measure it, NBER Working Paper Series No 8118, Cambridge, MA (<http://papers.nber.org/papers/w8118.pdf>)
6. Edwards, S. and Raul Susmel (2001). Volatility Dependence and Contagion in Emerging Equity Markets, NBER Working Paper Series No 8506, Cambridge, MA (<http://papers.nber.org/papers/w8506.pdf>)
7. Hernandez, Leonardo, Pamela Mellando., Rodrigo Valdez Determinants of Private Capital Flows in the 1970s and 1990s: Is There Evidence of Contagion (2001). IMF Working Paper, No. WP/01/64, Washington D.C (<http://www1.worldbank.org/economicpolicy/managing%20volatility/contagion/documents/wp0164.pdf>)
8. K. Brunnermeier (2008), Deciphering the Liquidity and Credit Crunch 2007-08, NBER Working Paper 14612; (<http://www.nber.org/papers/w14612>)
9. Frank, Nathaniel., Brenda González-Hermosillo, and Heiko Hesse (2008). "Transmission of Liquidity Shocks: Evidence from the 2007 Subprime Crisis," IMF Working Paper, No 200, WP/08/200 (<http://www.imf.org/external/pubs/ft/wp/2008/wp08200.pdf>)

C. IMPACT

Week 8:

- Economy-wide impacts of financial crises: From financial to economic and social crises

Reading Materials

1. Azis, Iwan J (1999), *Simulating Economy-wide Models to Capture the Transition from Financial Crisis to Social Crisis,* The Annals of Regional Science, Springer-Verlag, Vol 34:1-28
2. EDAP-UNDP (1998), *Social Implications of the Asian Financial Crisis*, Joint Policy Studies, No. 9, 1998

3. S. Gupta, C. McDonald, C. Schiller, M. Verhoeven, Bogeti, G. Schwartz (1998), *Mitigating the Social Costs of the Economic Crisis and the Reform Programs in Asia*, IMF Paper on Policy Analysis and Assessment, Fiscal Affairs Department, May.
(<http://www.imf.org/external/pubs/ft/ppaa/ppaa9807.pdf>)
4. ILO, (1998), *The Social Impact of the Asian Financial Crisis*, Bangkok, April.
5. Lance Taylor (ed) *External Liberalization in Asia, Post-Socialist Europe, and Brazil*, Oxford University Press, 2005
6. Azis, Iwan J, Wing Thye Woo, Zhai Fan, and Chanin Manopiniwes (2006). *China's Urban-Rural Disparity Under Alternative Financial and Fiscal Policies*, ICFAI Journal of Applied Economics, May.
7. Azis, Iwan J (2008) "Macroeconomic Policy and Poverty," ADB Institute Discussion Paper No. 111, Tokyo-Japan (<http://www.adbi.org/discussion-paper/2008/07/01/2628.macroecomic.policy.poverty/>)

D. POLICY MEASURES

Week 9:

- Policy of controlling capital flows: From direct capital controls to Tobin tax

Reading Materials

1. Sebastian Edwards (1998), *Interest Rate Volatility, Capital Controls and Contagion*, NBER Working Paper Series No 6756, Cambridge, MA
(<http://papers.nber.org/papers/W6756>)
2. Sebastian Edwards (1998), *Capital Flows, Real Exchange Rates, and Capital Controls: Some Latin American Experiences*, NBER Working Paper Series No 6800, Cambridge, MA (<http://papers.nber.org/papers/W6800>)
3. Spahn, P.B (1996), *The Tobin Tax and Exchange Rate Stability*, Finance and Development, June.
(<http://www.imf.org/external/pubs/ft/fandd/1996/06/pdf/spahn.pdf>)
4. Prasad, Eswar S., and Raghuram G. Rajan (2005), "Controlled Capital Account Liberalization: A Proposal," IMF Policy Discussion Paper, PDP/05/7, October (<http://www.imf.org/external/pubs/ft/pdp/2005/pdp07.pdf>)
5. Edwards, Sebastian (forthcoming) "Capital controls, capital flow contractions, and macroeconomic vulnerability," Journal of International Money and Finance
(http://www.anderson.ucla.edu/faculty/sebastian.edwards/cap_controls_JIMF.pdf)

Week 10:

- Macroeconomic policies: Exchange rate, fiscal and monetary policies

Reading Materials

1. Robert P. Flood Andrew K. Rose (2001), *Uncovered Interest Parity in Crisis: The Interest Rate Defense in the 1990s*, April, (unpublished paper)
(http://papers.ssrn.com/sol3/papers.cfm?abstract_id=880863)

2. Cerra, V & Saxena, S.C (1998), *Contagion, Monsoons, and Domestic Turmoil in Indonesia: A Case Study in the Asian Currency Crisis* (unpublished). (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=879540)
3. Chinn, Menzie, D (1998), *On the Won and Other East Asian Currencies*, NBER Working Paper Series No 6671, Cambridge, MA (<http://papers.nber.org/papers/W6671>)
8. Kamin, Steven B. (1997), *A Multi-Country Comparison of the Linkages Between Inflation and Exchange Rate Competitiveness*, BIS Working Papers No. 45, Bank for International Settlements, Basle, August. (<http://www.bis.org/publ/work45.pdf>)
9. Goldfajn, I., Gupta, P (1999), *Does Monetary Policy Stabilize the Exchange Rate Following a Currency Crisis*, IMF Working Paper, WP/99/42 (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=164350#PaperDownload)
10. Goldfajn, I., Baig, T (1998), *Monetary Policy in the Aftermath of Currency Crises: the Case of Asia*, IMF Working Paper, WP/98/170 (<https://www.internationalmonetaryfund.com/external/pubs/ft/wp/wp98170.pdf>)
11. Drazen, Alan and Stefan Hubrich (2003). *Mixed Signals in Defending The Exchange Rate: What Do the Data Say?* Center for Economic Policy Research, publication No. DP4050, London, United Kingdom, June.
12. Flood, Robert P. and Andrew K. Rose (2001). *Uncovered Interest Parity in Crisis: The Interest Rate Defense in the 1990s*, unpublished manuscript, April (<http://www.internationalmonetaryfund.com/external/pubs/ft/wp/2001/wp01207.pdf>)
13. Campa, Jose Manuel. And Linda S. Goldberg (2006). “*Pass Through of Exchange Rates to Consumption Prices: What Has Changed and Why?*”, NBER Working Paper, No 12547, September, (<http://www.nber.org/papers/w12547>)
14. Bleaney, M and Manuela Francisco (2007). “*Exchange Rate Regimes, Inflation and Growth in Developing Countries – An Assessment*,” The B.E. Journal of Macroeconomics, Volume 7, Issue 1, Article 18, (<http://www.bepress.com/cgi/viewcontent.cgi?article=1546&context=bejm>)
15. Azis, Iwan J (2009). Crisis, Complexity, and Conflict, Emerald, UK

Week 11:

- Policy based on uncovered interest-rate parity (UIP) model
- Currency risk premium
- Countering speculative attacks

Reading Materials:

1. Flood R.P & Marion, N.P. (1996), *Speculative Attacks: Fundamentals and Self-Fulfilling Prophecies*, NBER Working Paper No. 5789, Cambridge MA (<http://papers.nber.org/papers/W5789>)
2. Lee, Jang-Yung (1997), *Sterilizing Capital Inflows*, IMF Economic Issues No. 7, 1997 (<http://www.imf.org/EXTERNAL/PUBS/FT/ISSUES7/issue7.pdf>)

3. Flood R.P & Marion, N.P. (1998), *Perspectives on the Recent Currency Crisis Literature*, IMF Working Paper WP/98/130
(<http://www.imf.org/external/pubs/ft/wp/wp98130.pdf>)
4. Meredith, G. & Chinn, M.D (1998), *Long-Horizon Uncovered Interest Rate Parity*, NBER Working Paper Series No 6797, Cambridge, MA
(<http://papers.nber.org/papers/W6797>)
5. Azis, Iwan J (2002) "What Would Have Happened in Indonesia if Different Economic Policies had been Implemented When the Crisis Started?" *The Asian Economic Papers*, vol. 1 no. 2, MIT Press
6. Azis, Iwan J (2001), "Modeling Crisis Evolution and Counterfactual Policy Simulations: A Country Case Study," ADB Institute Working Paper, No 23, Tokyo. (<http://www.adbi.org/files/2001.08.rp23.country.case.indonesia.pdf>)
7. Drazen, Allan; Stefan Hubrich (2006). "A Simple Test of the Effect of Interest Rate Defense," NBER Working Paper, No 12616; October;
(<http://www.nber.org/papers/w12616>)
8. Lahiri, Amartya., Carlos A. Vegh (2005). "Output Costs, Currency Crises, and Interest Rate Defense of A Peg," (2005). NBER Working Paper, No 11791, (<http://www.nber.org/papers/w11791>)
9. Basurto, Gabriela & Atish Gosh (2001), "The Interest Rate–Exchange Rate Nexus in Currency Crises," IMF Staff Papers Vol. 47, Special Issue, International Monetary Fund,
<http://www.imf.org/external/pubs/ft/staffp/2000/00-00/bg.pdf>
10. Krugman, P. (1979) "A model of balance of payments crises", Journal of Money, Credit, and Banking 11: 311-325
11. Flood, R. and Garber, P. (1984) "Collapsing exchange rate regimes: some linear examples", Journal of International Economics 17:1-13
12. Obstfeld, M. (1986). "Rational and Self-Fulfilling Balance of Payments", American Economic Review, 76, pp.72-81.
13. Obstfeld, Maurice, "Models of Currency Crises with Self-fulfilling Features," European Economic Review, April 1996, 40, 1037-47.
14. Cipriani, Marco and Antonio Guarino (2008). "Herd Behavior in Financial Markets: An Experiment with Financial Market Professionals," IMF Working Paper 141, WP/08/141, June
(<http://www.imf.org/external/pubs/ft/wp/2008/wp08141.pdf>)

Week 12:

- From policy orthodoxy to extra ordinary measures: critical analysis of IFI and regional banks' response
- Federal Reserves' quantitative vs. qualitative easing

Reading Materials:

1. Joseph Stiglitz (2002). *Globalization and Its Discontents*, W.W. Norton & Company
2. Paul Blustein (2003). *The Chastening: Inside the Crisis That Rocked the Global Financial System and Humbled the Imf*, Public Affairs

3. IMF, (1998) *The IMF's Response to the Asian Crisis*, Factsheet, September, (<http://www.imf.org/External/np/exr/facts/asia.HTM>)
4. Sachs, J (1998), *The IMF and the Asian Flu*, The American Prospect, pp. 16-21, March-April 1 (<http://www.prospect.org/print/V9/37/sachs-j.html>)
5. Feldstein, M (1998), *Refocusing the IMF*, Foreign Affairs, pp. 20-33, March/April (http://bss.sfsu.edu/jmoss/resources/635_pdf/No_26_Feldstein.pdf)
6. Krugman, Paul (1998), *Saving Asia: It's Time to Get Radical*, Fortune, September 7 (http://money.cnn.com/magazines/fortune/fortune_archive/1998/09/07/247884)
7. Krueger, Anne, O (1998), *Whither the World Bank and the IMF*, Journal of Economic Literature, Vol XXXVI, No. 4, December. (<http://www.nber.org/papers/w6327.pdf>)
8. Azis, Iwan J (2005) “*IMF Perspectives and Alternative Views on the Asian Crisis*,” in P. Gangopadhyay and M. Chatterji (eds) Economics of Globalisation, Ashgate, England
9. William Easterly (2006), The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good , Penguin Press
10. Valencia, Fabian (2008). “*Banks' Precautionary Capital and Persistent Credit Crunches*,” IMF Working Paper, WP/08/248, October (<http://www.imf.org/external/pubs/ft/wp/2008/wp08248.pdf>)
11. Bernanke, Ben S (2009). “*The Crisis and the Policy Response*,” speech delivered at the Stamp Lecture, London School of Economics, London, England, January 13, 2009; (<http://www.federalreserve.gov/newsevents/speech/bernanke20090113a.htm>)
12. Carolina, A Saizar and Nigel Chalk (2008). “*Is Monetary Policy Effective When Credit is Low?*,” IMF Working Paper, WP/08/288 (<http://www.imf.org/external/pubs/ft/wp/2008/wp08288.pdf>)
13. Jeanne, Oliver., Jonathan D. Ostry, and Jeromin Zettelmeyer1 (2008). “*A Theory of International Crisis Lending and IMF Conditionality*.” IMF Working Paper 236, WP/08/236
14. Azis, Iwan J (2009). Crisis, Complexity, and Conflict, Emerald, UK

Week 13:

- Regional policy response: proliferation of regional financial arrangements (RFA)

Reading Materials

1. Canova, Fabio and Morten O. Ravn (1996). “*International Consumption Risk Sharing*,” International Economic Review, Vol 37, No 3, August.
2. Eichengreen, Barry (2006). “*Global Imbalances and the Asian Economies: Implications for Regional Cooperation*,” ADB Working Paper Series on Regional Economic Integration, No. 4, August. (<http://aric.adb.org/pdf/workingpaper/Eichengreen%20170806a%20final.pdf>)
3. French, K.R., Poterba, J.M., (1991). “*Investor diversification and international equity markets*,” American Economic Review, Papers and Proceedings 81, 222–226. (<http://www.nber.org/papers/w3609.pdf>)

4. Kalemli-Ozcan, S., B.E Sorensen and O. Yosha (2003). “*Risk Sharing and Industrial Specialization: Regional and International Evidence*,” The American Economic Review, Vol 93, No 3, June.
(http://www.econ.tau.ac.il/papers/inmemoriam/Yosha_Sorensen_Kalemni-Ozcan_2003.pdf)
5. Azis, Iwan J (2005). “*A Regional Cooperation To Support Financial Crisis Management and Prevention: An Application of A Model With Uncertainty and Feedback Influences*,” International Journal of Organizational Analysis, Vol 13, No 3.
6. Kawai, Masahiro and Shigeru Akiyama (2000). “*Implications of the Currency Crisis for Exchange Rate Arrangements in Emerging East Asia*”. Working Paper, World Bank, Washington D.C.
(<http://www.iss.u-tokyo.ac.jp/~kawai/pdffiles/respa/wbdipa2502.pdf>)
7. McKinnon, Ronald M. (2000), “*After the Crisis, the East Asian Dollar Standard Revisited*,” Mimeograph, Stanford University
8. Obstfeld, M. (1994). “*Risk-taking, global diversification, and growth*.” American Economic Review 84, 1310–1329.
(<http://www.nber.org/papers/W4093>)
9. Prasad, E., K. Rogoff, S. Wei and M. Kose (2003). “*Effects of Financial Globalization on Developing Countries: Some Empirical Evidence*,” IMF Working Paper, Washington D.C.
(<http://www.imf.org/external/np/res/docs/2003/031703.pdf>)
10. Mercereau, Benoît (2006) “*Financial Integration in Asia: Estimating the Risk-Sharing Gains for Australia and Other Nations*,” IMF Working Paper, WP/06/267, December,
(<http://www.imf.org/external/pubs/ft/wp/2006/wp06267.pdf>)
11. Azis, Iwan (2007).”Articulating the Benefits and Costs of Regional Financial Arrangement in East Asia,” in Global Imbalances and Their Impacts on Emerging Market Economies, proceeding published by the IMF-ADB-BI.
12. Azis, Iwan J., and Nattapong Puttanapong (2008) “*A Regional Trend Towards A Basket Peg System*,” International Journal of Trade and Global Markets, Vol. 1 , No. 2

E. SUMMARY

Week 14:

- Afterthoughts

Reading Materials

1. William Easterly (2001), The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics, MIT Press
2. Krugman, Paul (1999), Analytical Afterthoughts on the Asian Crisis,
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3. Azis, Iwan J; Wing Thye Woo; Zhai Fan; and Chanin Manopiniwes (2006). “*China's Urban-Rural Disparity Under Alternative Financial and Fiscal Policies*,” ICFAI Journal of Applied Economics, May.

4. IMF (2005), Assessing the Determinants and Prospects for the Pace of Market Access by Countries Emerging from Crises: Further Considerations, International Capital Markets Department, March (<http://www.imf.org/external/np/pp/eng/2005/030105a.pdf>)
5. Hattori, Masazumi and Hyun Song Shin, “*The Broad Yen Carry Trade*,” IMES Discussion Paper No. 2007-E-19, Institute for Monetary and Economic Studies, Bank of Japan, Tokyo
6. Gerard, Kristopher et.al (2008). “*Making Sense of the Subprime Crisis*,” Brookings Papers on Economic Activity, Fall, September (www.brookings.edu/economics/bpea/bpea.aspx)
7. Azis, Iwan J (2009). Crisis, Complexity, and Conflict, Emerald, UK
8. Akerlof, George and Robert Shiller (2009). Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism, Princeton University Press

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